

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6083

BILL NUMBER: HB 1057

NOTE PREPARED: Mar 21, 2013

BILL AMENDED: Jan 23, 2013

SUBJECT: Prosecuting Attorneys Retirement Fund.

FIRST AUTHOR: Rep. McMillin

FIRST SPONSOR: Sen. Boots

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill changes various features of the Prosecuting Attorneys Retirement Fund (PARF) to incorporate the same or similar features found in the 1985 Judges' Retirement System, including limiting the participant contribution period to 22 years, changing the manner in which a participant's eligibility for permanent disability benefits is determined, and allowing a participant to designate the participant's children to receive the participant's survivor benefit.

The bill changes eligibility for retirement benefits in PARF for a participant in PARF serving prior to and after July 1, 2006. It requires the board of trustees of the Indiana Public Retirement System (INPRS) to grant service credit for a participant who withdrew from PARF for years of service accrued before the withdrawal if the participant pays into the fund the full amount of the money received when the participant withdrew.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2013.

Explanation of State Expenditures: (Revised) Expenditures will increase with added retirement, death, and disability benefits for members (prosecuting attorneys, chief deputy prosecuting attorneys, and the executive director or the assistant executive director of the Indiana Prosecuting Attorneys Council (IPAC)). The total cost of these additional benefits (which is also the total increase in the unfunded actuarial accrued liability for the fund) is estimated at approximately \$2.2 M, amortized over 30 years. The provisions within this bill will lower the funding ratio of PARF by 1.8%. The current funding ratio of PARF is 49%. The annual employer contribution is estimated to increase by about \$293,000, or 1.34% of payroll.

Change	New Language	Current Language	Increase in Actuarial Liability
<i>Change of Member Contribution</i>	Required to contribute 6% of pay for 22 years of service.	Required to contribute 6% for all years of service.	\$0
<i>Change in Disability Eligibility</i>	Disability proved to the satisfaction of INPRS board. Service requirement to receive disability benefits is 0 years.	Disability benefits if qualified for Social Security Disability. Service requirement to receive disability benefits is 5 years.	\$0
<i>Reinstate Service Credit</i>	Withdrawn members may reinstate service credit earned during prior covered employment if the member pays into the fund the full amount of the money received when the member withdrew plus interest.	Withdrawn members cannot reinstate service credit earned during prior covered employment.	\$334,000
<i>Rule of 85</i>	Member receives full retirement benefit either at age 65 or anytime after 55 if age plus years of service equal 85.	Members receive full retirement benefits at age 65.	\$1,008,000
<i>Increase in Retirement/Death Benefit</i>	Retirement/death benefit formula increases to 65% for 29-35 years of service and 70% for 36+ years of service multiplied by the highest annual salary before separation from service.	The retirement/death benefit is 60% upon attainment of 22+ years of service, multiplied by the highest annual salary before separation from service.	\$399,000
<i>Fractional Years of Service</i>	Fractional years of service are recognized in the benefit formula.	Fractional years of service are not recognized in the benefit formula	\$0
<i>Change in Disability Benefits</i>	Member disability benefits paid at rates of 50% to 60% of salary.	Member disability benefits paid at rates of 40% to 50% of salary.	\$286,000
<i>Change in Survivor Benefits</i>	Survivor benefits are not subject to reduction for early retirement.	Survivor benefits subject to reduction for early retirement.	\$172,000
<i>Pickup Provision</i>	Members contribute 6% before income taxes as a "pickup" contribution.	Members make 6% contribution after paying income taxes.	\$0
<i>Change in Death Benefit Calculation</i>	Survivor benefits include a minimum annual benefit of \$12,000.	Survivor benefits include a minimum annual benefit of \$7,000.	\$17,000
<i>Change in Beneficiary Requirements</i>	Survivor benefits include benefits to surviving spouse or children if prosecutor dies while in office.	Survivor benefits do not clearly state that benefits payable to surviving spouse or children if prosecutor dies in office.	\$0

<i>Survivor Benefit Eligibility</i>	Survivor benefits provided if member has at least 8 years of service.	Survivor benefits provided upon 8 years of service for in-service deaths and out-of-service deaths if the member was entitled to a future benefit.	\$0
<i>Member Disability Eligibility</i>	Disability benefits paid if member becomes disabled and has been a participant in PARF.	Disability benefits paid only if member becomes disabled while in active service.	\$0

PARF is financed through a combination of employee contributions from prosecuting attorneys and chief deputy prosecuting attorneys and state General Fund appropriations. Any deficits that are created by the added expenditures from these new benefits and shortfalls in fee revenue would presumably be paid through new state General Fund appropriations.

(Revised) *Background: Reinstatement of Service Credit Provision* - The total cost resulting from the reinstatement of service credit provision depends on the number of PARF members who withdraw and later return to active employment in a covered position and are willing to pay to reinstate their prior service. To date, one PARF member has withdrawn from PARF and later returned to active employment in a covered position.

According to INPRS, PARF has 229 members, not including benefit recipients, who would be eligible to take advantage of this provision. This analysis is based on the assumption that 10% of current members who could withdraw will do so, and later pay to reinstate their service. The bill provides that the cost to members utilizing the provision would total the amount of contributions withdrawn at the date of termination plus interest, which according to INPRS would be at a rate of 6.75%.

For prefunded plans such as PARF, costs are defined as the increase in the unfunded actuarial liability of the fund. Therefore, costs will increase, depending upon the number of members who take advantage of the provision. On average, each member who utilizes this provision will increase the unfunded actuarial liability of PARF by approximately \$14,500.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System; Indiana Prosecuting Attorneys Council.

Local Agencies Affected:

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Definitions: *Unfunded Actuarial Liability* -sometimes called the unfunded liability, of a retirement system at

any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding Ratio - a ratio of a pension or annuity's assets to its liabilities.

Pickup Provision - a provision of government defined benefit plans where an employee may defer some income tax by electing to place it in a trust account for retirement. As a result, the amount deferred is not subject to income tax at the time it is placed in the trust. However, the deferred amounts are subject to Social Security and Medicare (FICA) tax.